

Remarks of

Patricia A. Friend
International President
Association of Flight Attendants-CWA,
AFL-CIO

to the

MBA Class of 2005
MIT Sloan School of Management

Cambridge, Massachusetts
October 7, 2004

Professor Kochan, Mr. Hull, distinguished guests, faculty and, most importantly, students, good afternoon. Thank you for inviting me to speak to you today about today's airlines, the current challenges they face and the role of labor in today's industry.

Before I begin, I would like to tell you a little about my organization, the Association of Flight Attendants–CWA. AFA represents 45,000 members at 26 carriers, in virtually every corner of the globe. Currently, our members are based all over the US and in at least six countries. At last count they live in more than 45 different countries. For many years, our small union has truly been global, and we are confident that experience will serve us well in what are certain to be tumultuous years ahead.

As the International President of AFA, I travel continuously, meeting with my members and with members of other labor organizations worldwide. I also attend conferences and meetings, where I learn more about the challenges our industry faces, and how labor can effectively represent our members in the face of difficulty and instability in their workplace.

Last month, just such a conference took place in Montreal. This conference, sponsored by McGill University Institute in cooperation with ICAO, the International Civil Aviation Organization, was billed as a "Worldwide Conference on the Challenges in International Aviation." There were over 50 speakers at this conference, all experts in one field or another of civil aviation. Representatives from around the world in the areas of aviation law, airport management, airline management, financial analysts, international transportation associations, governments, security organizations, the EU commission and academia expressed their views of the industry. While it was certainly an impressive group of panelists, there was not one speaker from labor.

Why was that? Was it because the topic of labor relations was not relevant to this gathering? But, actually several of the sessions addressed the role of labor in the industry extensively. One was even titled "How are Airlines, Aircraft Manufacturers and Labor Coping with the Financial Crisis?"

Other sessions that addressed the global future of the airline industry, the question of cabotage and ownership limits certainly involved the response of labor as a large component of the discussion. So why was labor left out? Why were we not given the opportunity to present our view on the future of civil aviation? Why was our role in the industry not recognized?

The answer could simply be that it was an oversight. Or - the answer could be much more telling. I believe this was yet another example, albeit a micro example, of why labor relations are the way they are today in the airline industry. This was an example of the various bodies that have a stake in civil aviation ignoring the largest stakeholders in any airline: the employees who operate the carrier, who protect and service the passengers, who fly the very aircraft that are the heart of the industry. Once again, the message was clear: labor's opinion has no value, it has nothing to offer, and we, the managers, the owners and the governments, know best.

I invite you to look closely at where those managers and owners and governments have put this industry. They have taken an industry that was thriving, growing, flying, so to speak, and driven it into the ground. And time after time, instead of taking responsibility for poor planning, for the failure to react creatively and flexibly to economic challenges, for the ‘live-for-today’ mentality prevalent in an industry that is traditionally cyclical, for continuing to operate under outmoded and inefficient business plans, and for employing a pricing model that no longer makes sense, they blame a convenient scapegoat – labor. Instead of acknowledging a failure to lead, and an even greater failure to manage, they cry, “It’s all labor’s fault, it’s all the unions’ fault.”

Ladies and Gentlemen, unions do not run the airline. Our mandate is to protect our members, to try to ensure that they earn decent wages, benefits and pensions and have a safe and secure workplace. These are the fundamental objectives that every working man and woman in the country want to achieve, whether they be management or labor. We would be foolish to try to destroy an industry that provides us with the jobs our members so desperately need.

I challenge those who do run the airline to stop pointing the finger at labor – the easy target-- and get to work looking for better and more effective business models for the future.

The events of September 11 coupled with the SARS outbreak are frequently cited as the catalysts for throwing the airline industry into its current turmoil. However, analysts who look more carefully and are not willing to accept the easy answer have noted that the signs were all there before September 11 — the tremendous downturn in the Asian economies, the recession in Europe, the renewed turmoil in the Middle East and poor industry decisions all indicated that the airlines were well on the way into a tailspin of their own making. The failure of airline management to recognize this and to make necessary course corrections early on was significant in the ensuing industry chaos after September 11.

Since then, it seems there has been one costly event after another for our carriers: the continued threats of terrorism, the price of oil, the advances in technology that can often serve to replace business travel, the steady incursion of low cost carriers into more and more markets, overcapacity and poorly managed pension funds were and are all variables that have affected airline financial performance. However, instead of looking for new and creative solutions to combat these industry challenges, the rally cry became, “This is all labor’s fault, and we need labor to pay.”

Labor has paid and it continues to pay, time and time again. Yet as I’ve said, we do not run the airline, and many of our suggestions, cost-saving proposals and other creative attempts to help management weather the current storm have been for the most part unwelcome and mostly unappreciated.

Many industry leaders believed in the aftermath of September 11 that the government would come to the aid of the airline industry and provide the bridge needed to return to economic health. However, even the creation of the ATSB loan program did little to aid an industry that was unable to develop a viable business plan, either individually or collectively. When it became evident that the fix was not going to be government driven, one by one, airlines began to turn to another option: bankruptcy.

In the past two years, I have learned more about the bankruptcy codes in this country than I ever wanted to know. I have come to believe that the purpose of bankruptcy, giving a corporation the chance to restructure itself with certain protections from its creditors while continuing to operate, is in itself becoming a detriment to the industry as a whole. When major carriers, operating under the protection of the bankruptcy code, dramatically reduce their operating and labor costs while shielded from creditors they gain a significant competitive advantage in an extremely competitive industry. In order to survive, the rest must either declare bankruptcy as well or wring the same concessions out of their suppliers and employees under the threat of entering into bankruptcy. Thus the downward spiral continues.

How are the airlines and their employees to cope with this crisis? Is there a way for labor and management to work collaboratively for the benefit of the industry?

Since you will be the managers of the future, I encourage you to look beyond the simplistic solution – cutting labor costs. Instead, I challenge you to look deeper than labor costs and acknowledge that the traditional way of doing business may no longer work.

Airlines must find a new way to conduct business. They must recognize that ours is an industry in transition, a mature industry whose pricing models are not sustainable and an industry where the competition is no longer healthy but destructive.

They must also recognize that the U.S. domestic market is forever changed, and stop waiting for “things to get back to normal,” and instead acknowledge that this is the new “normal.”

The airline industry is essentially a service industry and a service industry is customer driven. Simply put, the key to survival is meeting the needs of the customer while effectively managing variables, cycles, costs, operations and, most importantly, planning ahead during times of plenty, to successfully navigate the lean years. Identifying customer needs and understanding how also meeting the needs of your front-line employees can have a direct correlation to customer satisfaction is paramount in a highly competitive business. This correlation often seems lost on airline management.

Industry analysts love to point at charts that say, “Look, airlines 1 and 2 have high labor costs. Airlines 1 and 2 are in bankruptcy. Therefore the labor costs must be the cause of their trouble.” Not only is this reasoning wrong in its simplistic conclusion, the overall logic is faulty. For example, some carriers who have the lowest wages in the industry are also in great trouble. A case in point is ATA, which every day moves closer and closer to seeking protection in bankruptcy. And what about Delta Airlines, which is sure to be next at the bankruptcy table. It has only one labor group that is unionized, the pilots. No other employee group has a collective bargaining agreement, so Delta management has always been free to impose changes in pay, productivity and benefits as necessary to guarantee profitability. Even with that degree of latitude, analysts believe Delta will not be able to avoid the bankruptcy court for much longer.

Perhaps the best proof of the flaw in the conventional wisdom is the airline darling of the financial markets, Southwest. When touting their fix for airline woes in this country, management will often point to Southwest Airlines and its success as a low-cost carrier. What they fail to acknowledge is that while Southwest might be a low-cost carrier, it is not a low-wage airline. The flight attendants at Southwest are not among the highest paid in the industry, they are the highest paid. What is it that makes them different? Well, Southwest appears to understand exactly that correlation I was speaking of before: the correlation between satisfied customers, those whose needs are met, and appreciated employees.

Much has been made of the Southwest model in the airline business. Yet although it is one that many tout, few will fully embrace it. Why? It’s hard work to do business the Southwest way. It demands a responsive form of corporate governance that relies on accountability instead of blame, that values its relationships with its employees and uses those relationships to achieve high performance. Above all, management at Southwest believes in shared goals, shared knowledge and a corporate culture of mutual respect.

Among management styles, there are two that are polar opposites. One is autocratic – managing from the top down, using discipline, fear and rigidity to achieve results. The other form is consensual—managing through motivation and respect, valuing creativity and encouraging leadership. Many of the traditional carriers depend on the first style of management to control their workforce. To an extent, this may be understandable since this style is quasi-military. Many airline cultures are built on military models – just look at the uniforms we wear! However, it is breaking from this tradition and adopting the second management model that has been one of the keys to success at Southwest.

Southwest doesn’t declare, as do some, that airlines are a business that belongs to the young - translate, lower-paid workers. It values what both the youthful and the mature employee have to offer, not only to the company but also to each other. They believe in investing in frontline leadership, and they encourage leadership at every level in the organization. Supervision at Southwest tends to be informative and supportive in nature, not confrontational and paternalistic, as it is at the legacy carriers we represent.

Having every labor group at Southwest unionized has helped, not hurt, their bottom line. I have never heard Southwest management complain that the unions are too strong and we need to get rid of them or destabilize them. However, I have heard them say that they believe strong unions can help build a stronger company if we recognize the value of our employees and their input and the role of collective bargaining in the process.

In her book, *The Southwest Airlines Way*, Dr. Jody Gittel, a member of MIT's Global Airline Industry program, states quite clearly: The popular misconception that Southwest's success is based on it being a nonunion carrier could not be further from the truth. She writes, and I quote "...Southwest has the highest percentage of unionized employees of any airline in the United States, and it prides itself on outstanding relationships with its unions, including traditional unions such as the International Brotherhood of Teamsters, the International Association of Machinists and the Transport Workers Union."

She goes on by saying, "... four factors, leadership, culture, strategy and coordination – offer important insights into Southwest's success, but each one is powered by Southwest's distinctive relationship-building ability." For the workers at Southwest, that translates into a corporate strategy that makes unions partners, not adversaries.

It is interesting that Southwest, whose business model is touted throughout the world, is frequently mistaken as being non-union. Sometimes I wonder if that is another error made by airline managers and analysts because they do not want to believe that labor is not the source of their problems. In fact, part of the reason Southwest is such a success story is exactly because of the extraordinary strides it has made in labor-management relations. Instead of relying on intimidation and confrontation, Southwest not only encourages, but insists, that its management use communication and openness in working with its unions.

To date, unionized workers at carriers in the United States, both out of bankruptcy and through the bankruptcy process, have given billions and billions of dollars back to airlines in the hopes that they will survive. They have done this, for the most part, voluntarily and as committed employees. Yet it has not helped. In some cases, decreases in wages by as much as 60 percent, increased health care costs borne by workers, increased productivity and decimated pension plans are not enough to save a beleaguered carrier. I am at a loss to understand why airlines cannot see that this is not the solution to their problems. Only a change in the fundamental way that they do business will allow them to succeed in a turnaround effort.

I am often asked, "Why are your members, airline employees, so willing to help their carriers, often at great personal sacrifice to themselves? What makes them agree to this?" Well, I can offer you one answer. Airline workers—and by that I mean the real workers, not transient managers that move from carrier to carrier, industry to industry—I mean the pilots, the baggage handlers, the reservation agents, the aircraft mechanics, and yes, the flight attendants, simply love their airlines. They love the great and "once great"

companies that they work for and have worked for. Granted, they do not always have faith in their management—in many cases, they have no respect for their corporate leaders—but they do love the entity that is the carrier itself. And many will do anything they can to help it survive. However, at some point, it will all be futile, unless management accepts its responsibility for running the business end of the airline the way it should, and unless it begins to foster a culture of pride and partnership between the workers and the carriers.

In closing, I would like to leave you with one thought. There was a time in the corporate history of America that industry survived downturns by developing new products and new services, by creatively solving problems and by valuing its employees as its most important asset. It is my prediction that unless we return to these values in running our airlines, very few of those companies who are struggling today will actually be in business tomorrow.